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HOUSE GOVERNMENT REFORM COMMITTEE
NATIONAL SECURITY, EMERGING THREATS AND INTERNATIONAL
RELATIONS SUBCOMMITTEE**

**STATEMENT OF
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DIRECTOR, LOGISTICS OPERATIONS
DEFENSE LOGISTICS AGENCY**

**HEARING BEFORE THE
NATIONAL SECURITY, EMERGING THREATS AND INTERNATIONAL
RELATIONS SUBCOMMITTEE
OF THE
HOUSE GOVERNMENT REFORM COMMITTEE**

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Good afternoon, Mr. Chairman, Mr. Kucinich, and distinguished members of the Subcommittee. I am Major General Bennie Williams, Director of Logistics Operations at the Defense Logistics Agency (DLA). I appreciate the opportunity to discuss DLA's and the Defense Reutilization and Marketing Service's (DRMS) on-going and more recent efforts to improve the performance of the DoD excess property Reutilization, Marketing and Disposal program, including addressing National Security concerns the committee may have and the related actions we are taking to ensure that our program resolves such concerns.

As DLA's Director of Logistics Operations, I am responsible for the procurement, management, storage, and distribution of some five million line items, at an annual volume of twenty five million receipts and issues and over thirty billion dollars in sales, for our Military customers, various federal agencies, and allied forces. As part of this worldwide mission, DRMS, a DLA field activity headquartered in Battle Creek, Michigan, provides reutilization, marketing and disposal services at Defense Reutilization and Marketing Offices (DRMOs) in 37 states and 14 countries, including Iraq and Afghanistan. DRMS handles a complex and varied workload involving hundreds of thousands of different products and material. DRMS processed 3.4 million line items, with an original acquisition value of over 20 billion dollars, in Fiscal Year (FY) 2005. This was material that was excess to specific users' needs, but could potentially be reutilized within the department or otherwise sold or disposed of as appropriate. DRMS' roles include extensive efforts to support warfighters in Iraq and humanitarian efforts such as Katrina relief. With me today is Mr. Paul Peters, a member of the Senior Executive Service, who assumed leadership of DRMS as its Director on February 16, 2006.

DLA's number one priority is to provide best value integrated logistics support to the warfighters to help them ensure national security objectives are met. Our demonstrated ability to provide virtually every consumable item imaginable - food, fuel, medical supplies, clothing, weapon systems repair parts,

and construction material - to our forces in Afghanistan and Iraq, and to all our customers worldwide, is a continuing testament to our talented and dedicated workforce.

DRMS plays a vital role in DLA's support to the warfighter by providing essential hazardous and surplus property disposal services to the Military Services at home and where deployed, and by facilitating maximum utilization of these assets elsewhere within the department, or by other authorized customers, at little or no cost to the user. We are also responsible to ensure effective control measures are in place to prevent excess DoD property from falling into the wrong hands.

For many years our DRMS business model was to incorporate accepted commercial best practices and focus on increasing reutilization while reducing costs. In the post-September 11, 2001 era and in support of the Global War on Terror, we have been increasingly emphasizing the identification and mitigation of related risks, while sustaining the overall effectiveness and efficiency of the excess property program and supporting increased requirements in theater with the warfighters. DLA is working closely with the Office of the Secretary of Defense (OSD) and the Military Services to resolve related issues Department-wide and ensure positive results from these efforts. On-going reviews by the Government Accountability Office (GAO) and this committee's oversight have also helped us define focus areas and contributed to improving this important program.

Most recently, four primary areas have emerged from our own and GAO's assessments. They are processing controls for batch lot items and the related impact on controls over material requiring demilitarization, processing of items received at DRMS coded with Local Stock Numbers, improved controls regarding access to DRMS assets, and reducing concurrent procurements of items available at DRMS. We have made progress on all four, but it was apparent from

our own programmatic review this spring, and confirmed by the most recent GAO assessment, that more work remains, especially with regard to the first three areas. The fourth, concurrent procurement, can best be resolved by on-going systemic enhancements described later in this statement.

Accordingly, we are immediately implementing significant changes in how we account for and process certain excess property, while also continuing to ensure we obtain the best value for the taxpayer. As discussed in more detail later in this statement, these changes include implementing enhanced and consolidated processes for items received in batch lots and/or with Local Stock Numbers, as these are elements of our excess property functions that have been at the greatest risk. In addition, we have immediately tightened procedures for verifying the identity and authority of those seeking to obtain material from DRMS sites, while continuing those enhancements that reduce the potential for the Military Services or DLA to simultaneously procure items from the commercial sector that are available in A condition at DRMS.

Before I address in detail our current programmatic improvement actions, I want to note the many actions we have taken to resolve those vulnerabilities and inefficiencies identified in past hearings and reports, including progress to date on current focus areas. I will then discuss how we are proceeding today, including highlighting the aggressive new program that will significantly improve our processing for batch lot and Local Stock Number items. In all of these actions, our ultimate goals for DRMS are to enhance its ability to continue to provide quality support to the warfighter, mitigate risks to national security by strengthening the disposal process and inventory accountability, and ensure taxpayer dollars are spent appropriately.

PROCESS ENHANCEMENTS

Leadership focus and performance assessment: DLA's commitment to improving our stewardship of the excess property program is reflected by the DLA Director's decision in late 2005 to restructure the alignment of DLA's Senior Executive Service (SES) corps to provide an SES position at DRMS. Mr. Peters was selected and, as already noted, took over at DRMS on February 16, 2006. He is the first SES Director of DRMS, and is also the first flag-level or equivalent military or civilian to lead DRMS since 1989. He brings a broad logistics background and has wide ranging experience in auditing and program management across the Department. In the relatively short time he has been at DRMS he has instituted important process, management oversight and programmatic changes which I will address later in this statement. In addition, expanded DRMS performance metrics are included in monthly DLA-wide performance management reviews with the DLA Director, myself and the Agency's corporate leadership, and the Director and I are briefed at least quarterly on the actions DRMS is taking regarding improving property reutilization and disposal processes.

Reducing concurrent procurement: In recent years a principal DLA focus has been on improvements in the excess property reutilization program. Of particular concern was the issue of concurrent procurement and disposal of items that were in excess yet were in serviceable condition (e.g., Condition Code A property). This issue required coordinated action by OSD, the Military services and DLA.

We initially chose internal DLA processes and procedures as a key target, since DLA manages over 70% of the Condition Code A line items received by DRMS. DRMS personnel work with the three DLA Inventory Control Points (ICPs), who are the primary DLA procuring activities, to use existing systems

such as the Automated Asset Reutilization Program (AARP) to help increase reutilization.

Until recently, DLA's own inventory procurement and disposal systems were not integrated, and this had been identified as a significant part of the concurrent procurement problem. As stated during last year's hearing, DLA addressed this factor with implementation of an update to its Enterprise Resource Planning (ERP) software, Business Systems Modernization (BSM) Release 2.2, which became operational on schedule in January 2006. Release 2.2 successfully integrated the AARP functionality for NSN items in the BSM inventory. It maximizes use of DRMS' Condition Code A excess property by systematically ensuring recoupment of those assets up to the amount authorized by DLA inventory retention levels. BSM currently is used at our ICPs in managing about half of DLA's items. Within a year it will be used to manage all of DLA's items, so we expect this means of avoiding concurrent procurement will bring additional benefits in the near future.

In the past year, our DLA ICPs have reutilized over 8,600 line items with an acquisition value of 5.7 million dollars. This is an increase of 24 percent in line items and 77 percent in acquisition value. Specifically, AARP requisitions with the DLA ICPs were 4,841 line items from July 2005 - June 2006, with a combined acquisition value of 2.2 million dollars, while from January through June 2006, DRMS filled 1,201 BSM orders with an acquisition value of 1.2 million dollars.

DRMS also addressed this issue with the Military Services' procuring activities, who do not have direct links to DRMS excess property, by enabling increased use of Automated Want Lists. These lists are created by customers to identify needed items that may be received by DRMS. Begun in June 2004, this initiative enables customers to create a list of up to 10,000 separate items they need. When DRMS receives any of the needed items in its inventory, the

customer is automatically notified via email. DRMS has received 5,663 requisitions as a result of Want Lists since October 2005, with a combined acquisition value of 53 million dollars.

In total, these efforts are showing positive results. To date our overall reutilization rate for Condition Code A property has risen from approximately 18 percent in FYs 04 and 05 to approximately 21 percent in FY 06. For DoD customers alone, excluding mandated programs such as Foreign Military Sales and Law Enforcement Support, the overall reutilization rates are 11 percent for FY 04, 12 percent for FY 05, and 14 percent for FY 06 to date, and this is saving the Department approximately 224 million dollars in original acquisition cost for Condition Code A items.

In the longer-term, DLA continues to implement information technology solutions that will give us greater ability to meet DoD's disposal needs, resulting in further system collaboration and enhanced inventory visibility. The key component of this effort is the DRMS systems initiative known as the Reutilization Modernization Program (RMP). RMP will increase asset visibility and integrate the redistribution of excess property into the Military Services' and DLA supply chains for maximum effectiveness, while increasing the Agency's ability to identify items not currently associated with an NSN. RMP implementation is scheduled in FY10.

Asset coding: In a 2005 audit, GAO raised concerns regarding the Military Services turning in serviceable property as unserviceable. In our efforts to correct this, we discovered that a key problem was that property was being coded as unserviceable because it was obsolete for its current user and was being replaced by newer and better technology. This prevented other Military Service organizations from considering it for use. DLA is part of a joint group that is working DoD-wide options to resolve this issue

In 2005 the Department also had directed the Military Services and DLA to review their excess property procedures, turn-in documentation and accountability mechanisms. DLA and DRMS worked with the Military Services to ensure appropriate disposal guidance is included in their training doctrines, policies, and directives. We are submitting draft disposal language for inclusion in Joint and Military Service publications at their next publication review cycle.

A recurring theme from our customer engagements is that current internal Military Service regulations are adequate, but assigning precise Condition Codes on their turn-ins of excess property to DRMS is a challenge for personnel who already face a demanding workload to support their direct operational commitments. DRMS senior leaders have met with senior Military Service logistics officials, emphasizing the importance of assigning proper Condition Codes, and supporting development of a disposal curriculum to be used by DRMS employees to train those who dispose of property at the installation level.

Batch lot processing and demilitarization (“demil”) coding: Batch lots are the physical grouping of individual receipts of low dollar value property under a consolidated turn-in document. In response to prior DLA and GAO findings, DRMS further restricted the kinds of property that could be batch-lotted, as Items in batch lots lose their specific identity. As a result, we broke apart and individually reviewed all batch lots potentially containing the high risk property identified in a 2003 GAO report, required increased review and certification of documentation on all property going into a batch lot, and helped set up a new program specifically to process chemical/biological suits to prevent further releases to the public. As noted later in this statement, we are establishing additional highly focused processes for batch lot and Local Stock Number processing at DRMS that will reduce our reliance on customer coding of turn ins to identify demil-required items.

Inventory accuracy: The 2005 GAO report questioned the accuracy of DRMS' inventory. In September 2005 DRMS began an assessment of existing inventory accuracy issues, including potential problems with property inventory records. Relevant data is reviewed weekly by DRMS field and headquarters personnel. We established eleven account monitor positions to help improve inventory management and data integrity, and improved the visibility of internal DRMS shipments. The initial results are positive - DRMS' net inventory loss rates have declined, from 0.17 percent in FY 04 to 0.06 percent in FY05 and 0.05 percent to date in FY06.

Security: DRMS increased its emphasis on risk management. This included identifying and funding physical security improvements at key sites and tightening controls over release or sale of property. DRMS screens property for laboratory equipment that could conceivably be used by terrorists. We also increased our computer-supported ability to view excess assets held by our sales contractor, Government Liquidation (GL), and are now using it to ensure only appropriate items are available for potential sale, including revalidating an item's demil code prior to sale by GL. As discussed further in this statement, DRMS recently initiated a complete review by DRMS HQ and field personnel of literally every step in the property disposal process, to identify the risks and vulnerabilities within each step, and the actions necessary to address those risks.

PROGRAMMATIC CHANGES

As I just discussed, we have initiated various process enhancements to address concurrent procurement of available assets, to improve control of items received at DRMS and to reduce risks in other specific areas. Today's post-9/11 environment and the DoD excess property business model call for increased emphasis on preventing inappropriate property from falling into the hands of the wrong people, and requires a finer balance between maximizing the re-use of

property, controls over potential vulnerabilities and the costs vs. benefits of related improvements. We have made progress, but our actions must be accelerated and more changes are needed.

Accordingly, DRMS and DLA have realigned our processes to further prevent the release of potentially harmful property to the public, even if this may result in reduced revenue and some increased costs to the taxpayer. This requires further changes to the DRMS business model. Our current efforts to address related risks and achieve overall improved performance at DRMS are focused on five specific areas: Improving handling of batch lots (especially with respect to items requiring demilitarization), better management of items we receive with Local Stock Numbers (LSNs), enhanced security, immediate additional issue-focused process enhancements, and capitalizing on the results of the DRMS A-76 public-private competition. We are also aggressively pursuing broader DRMS-wide programmatic improvements, and will continue the systemic enhancements that will further limit incidents of concurrent procurement. I will now summarize our progress in each area:

Batch Lots and demil items: The most recent GAO investigation indicated continued problems in the areas of release of demil-required property inadvertently placed in batch lots, and the potential for unauthorized persons to obtain such excess or surplus property via fraudulent means. GAO's recent findings confirmed that despite the challenges and costs involved with more stringent review of low value batch lot items, increased compliance validation was required for these items, which were 44 percent of the line items processed by DRMS in FY 05.

DRMS immediately froze the processing of all batch lots currently in the possession of DRMS and its sales contractor, Government Liquidation (GL), and took them apart to ensure the property contained within was appropriate for release. DRMS is now implementing an aggressive new approach to more fully

control batch lot material. This fundamental change in the business model will centralize batch lot physical verification and implement a 100% physical inspection of all such items prior to sale. This approach, and our ability to devote experienced disposal subject matter experts to this consolidated batch processing and provide multiple reviews of the property involved, will be more effective than our current decentralized batch lot process in preventing inappropriate release of property.

Local Stock Numbers (LSNs): Another major focus area is the use of Local Stock Numbers (LSNs). LSN items are an especially challenging element of the DoD property disposal program, in that they represent approximately 40% of the items received in DRMS, often as part of batch lots. In many cases, LSNs reflect items purchased from the commercial sector, often procured with IMPAC cards used Government-wide to reduce unnecessary and expensive procurements, or via Prime Vendor support contracts. These items are not turned in with a National Stock Number (NSN) that is fully coordinated across the department. Other items that have a valid NSN are sometimes turned in under LSNs. Without an NSN readily available, LSN items lack a detailed item description and cannot be automatically screened to determine their demil code. GAO identified use of LSNs as a deterrent to reutilization in their earlier report. After considering various alternatives, we have concluded that LSN items, except for low risk categories such as furniture, commercial vehicles and appliances, will be processed in the same consolidated and focused manner described above for batch lots---with 100% physical inspection at the same sites we will use for batch lot processing before consideration of public sale.

Security: Despite improved procedures, DRMS was also recently made aware of vulnerabilities in the release of property via reutilization to unauthorized persons. GAO personnel, using forged documents and posing as contractors working for an Army activity, removed demil-required property from at least two DRMOs. Until this occurred, the reutilization of military equipment by DoD

activities had been considered a lower risk for unauthorized property release than was the sale of property to the public. DRMS took immediate action to significantly minimize the risk of unauthorized release by tightening its procedures to be enforced on all walk-in removals of DRMO property. These procedures require, among other things, that all authorization letters be on file at the DRMO before the arrival of the screener, and that before property is released, the DRMO must contact the point of contact for the authorization letter and obtain verification authorizing release of the property. DRMS and DLA are also reviewing policies and procedures to determine if ending walk-in reutilization is a long-term solution. This change, if adopted, could have negative effects on the program's benefit to the warfighter, by making reutilization overly burdensome.

Another concern raised by the GAO was their ability to obtain a clearance from DLA to purchase export controlled material from DRMS' sales partner, GL. A GAO agent was able to obtain a favorable Trade Security Control (TSC) assessment using an assumed identity, by providing copies of a forged driver's license and utility bill and a Social Security card issued in the name of the assumed identity. Despite these efforts, the TSC assessment process identified problems in GAO's application, but an error still occurred when the undercover GAO agent was able to explain away the noted problems. In an effort to address these issues, additional training will be provided to TSC assessment office personnel to ensure no buyer is favorably assessed without first resolving all discrepancies that cast doubt on the buyer's identity.

GAO's purchase of export controlled material clearly should not have happened, but we do not consider it representative of the overall quality of our aggressive TSC efforts. In a post-9/11 environment, DLA has focused the TSC program on both overseas and domestic sales. DLA's TSC program is accomplished through a three-pronged approach. First, TSC assessments are conducted to evaluate the integrity and reliability of all prospective purchasers

of controlled property requiring Trade Security Controls to reduce the likelihood of unlawful exports or diversion to unauthorized buyers. Second, DLA uses proactive Post Sale Investigations of selected buyers of the property to detect and prevent illegal exports or diversion. Finally, purchasers of controlled property are educated regarding export licensing requirements through written notice provided to all assessed buyers before the sale, and through written and in-person notices provided to those buyers who are contacted during Post Sale Investigations. DLA has applied due diligence in this area and provides a level of scrutiny that goes beyond regulatory requirements to include domestic sales.

In a further effort to strengthen this process, DLA is currently preparing a procedure for public comment that will allow us to exclude questionable buyers from purchasing Munitions List and Commerce Control List items (demil codes B and Q property). We anticipate this procedure will be ready for implementation by December 2006.

Additional near-term process enhancements: Institution of more quality control checks and validations in the day-to-day processes of DRMS are another step forward. DRMS uses internal Self-Assessments and Compliance Assistance Visits (CAV) to monitor compliance with existing written policies and procedures. DRMS has conducted four quarterly Self Assessments at each DRMO and 50 CAVs since June 2005. Effective this month, DRMS is strengthening these compliance activities through use of operational effectiveness reviews. These review teams will be comprised of senior disposal experts from within DRMS. Their purpose is to determine compliance with established procedures, assess business processes to identify vulnerabilities, determine effective risk mitigation actions and test those corrective actions. Inspection protocols will also be enhanced to ensure they cover vulnerabilities being identified in the ongoing DRMS risk assessment process.

A-76 results: Another major focus area is for DRMS to fully implement a fundamental change in the way it does business through the A-76 Most Efficient Organization (MEO) for DRMS warehousing operations in the continental United States. The MEO is the result of a competition that began in 2001, and the transition period is concluding this month. As stated previously before this Subcommittee, the stand up of the MEO will result in a reduced organizational and physical structure (18 fully staffed DRMO warehousing operations compared to 68 last year), improved command, control and communication and more efficient use of facilities.

Broad-based Programmatic Enhancements across DRMS: To ensure we have been as comprehensive as possible, DRMS has undertaken a major program review to identify further improvements that may be needed throughout the DoD disposal system. The first wave of process improvements was primarily aimed at outside influences on the system, and the results of these efforts have been discussed earlier in this statement. The second wave of this effort was to identify all risks and vulnerabilities in the DRMS internal processes and define the risk mitigation actions. The initial payoff from this wave is the program we are now implementing to improve the processing of batch lot and LSN items that I described earlier, as well as enhanced controls over property release to individuals. We expect significant reduction in the problems cited in the GAO's most recent findings as a result of our new batch lot and LSN processing approaches, but other challenges and vulnerabilities remain. Full in-depth review and execution of other vulnerability and risk mitigation options are expected to take a year or more to complete.

In addition to these initiatives, we continue to address systemic enhancements to reduce concurrent procurements, which will come to fruition with expansion of BSM use across all DLA-managed items over the next year, and RMP's implementation in FY10.

In closing, Mr. Chairman, DLA's highest priority remains top quality direct support to the warfighter. We know that resolving issues identified by ourselves, the GAO and this committee will further mitigate risks to National Security, better serve the men and women in the Military Services, and ensure taxpayers' dollars are more effectively utilized. The challenges we face require a sustained cost-effective effort, and we believe we have taken significant steps toward resolving the identified short- and longer-term problems, both in recent years and with the additional immediate steps concerning batch lots, LSNs and property release processes that I have outlined today. We remain committed to providing the leadership, modernized systems, process enhancements and resources needed to resolve these concerns, and to help ensure that America's fighting forces remain the best equipped in the World at the best value cost to the taxpayer.